

## Message Text

UNCLASSIFIED

PAGE 01 SEOUL 05491 171103Z

13

ACTION EB-11

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 AGR-20 NSC-10 SS-15 STR-08

CEA-02 RSR-01 /141 W

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9555

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E.O. 11652: N/A

TAGS: ECON, KS

SUBJ: PRICE STABILIZATION PROGRAM: THREE PERCENT TARGET  
TO BE CONTINUED

REF: SEOUL A-137

SUMMARY: KOREA'S WHOLESALE PRICE INDEX (WPI) ROSE BY ONLY 3.7 PERCENT IN THE YEAR FOLLOWING THE AUGUST 1972 EMERGENCY ECONOMIC REFORMS, WITH NEARLY ONE PERCENTAGE POINT ACCOUNTED FOR BY JULY INCREASE. HOWEVER, GOVERNMENT HAS NOT ABANDONED ITS STABILIZATION TARGET OF LIMITING FUTURE WPI INCREASES TO THREE PERCENT. RECENT MAJOR PRICE INCREASES ON A FEW WORLD-TRADED ITEMS HAVE BEEN FOLLOWED BY REIMPOSITION OF A GENERAL FREEZE AS OF AUGUST 8 AND NEW EMPHASIS ON COST REDUCTION AND OTHER MEASURES ALREADY IN EFFECT. CONTINUATION OF INTERNATIONAL COMMODITY INFLATION, HOWEVER, WILL MAKE CONTAINMENT OF PRICE PRESSURES IN KOREA'S IMPORT-DEPENDENT ECONOMY MORE AND MORE DIFFICULT. END SUMMARY.

1. SINCE THE EMERGENCY ECONOMIC REFORMS ANNOUNCED ON AUGUST 3, 1972 THE ROKG HAS SUCCESSFULLY REDUCED THE ANNUAL INCREASE IN THE WHOLESALE PRICE INDEX FROM 10-12 PERCENT P.A. TO 3.7 PERCENT, OR SLIGHTLY MORE THAN THE  
UNCLASSIFIED

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PAGE 02 SEOUL 05491 171103Z

TARGET MAXIMUM RATE OF THREE PERCENT. THE INCREASE THROUGH

JUNE 1973 WAS ONLY 2.9 PERCENT. THE LARGE 0.8 PERCENT JUMP IN JULY FOLLOWED DOMESTIC PRICE INCREASES AUTHORIZED FOR STEEL REINFORCING BARS, ANIMAL FEEDS AND SOME CONSUMER ITEMS. (THE EPB CITED U.S. EXPORT CONTROLS AS A MAJOR REASON FOR BRINGING DOMESTIC PRICES UP TO WORLD LEVELS.) THE CONSUMER PRICE INDEX ACTUALLY FELL 0.1 PERCENT FROM JULY TO JULY, LARGELY DUE TO RICE PRICE CONTROLS.

2. ON AUGUST 8 PRICE INCREASES AVERAGING 13 PERCENT FOR PETROLEUM PRODUCTS, 17 PERCENT TO 38 PERCENT FOR PULP AND PAPER, AND 33 PERCENT FOR RAYON YARN WERE APPROVED, DUE TO SUBSTANTIAL INCREASES IN RAW MATERIAL IMPORT COSTS. ALL OTHER PRICES WERE SIMULTANEOUSLY FROZEN, TO PREVENT INDUSTRIAL USERS FROM PASSING ON THE PRICE INCREASES. IN ADDITION A BUSINESS COST REDUCTION PROGRAM AND A RETAIL PRICE TAGGING PROGRAM WERE REAFFIRMED AND INTENSIFIED. THE VICE MINISTERIAL PRICE REVIEW COMMITTEE CONTINUES TO MEET DAILY. SPECIAL COMMITTEES HAVE BEEN CHARGED WITH DETERMINING MEANS TO SECURE RAW MATERIAL SUPPLIES AS A CUSHION AGAINST FUTURE SPECULATIVE MOVEMENTS AND SHORTAGES. SOME RESTRICTIONS ARE TO BE PLACED ON NON-ESSENTIAL CONSTRUCTION, AND THE RATE OF MONETARY EXPANSION IS TO BE SLOWED DOWN.

COMMENT: SOME KOREAN ECONOMISTS PRIVATELY ESTIMATE THAT THE INDICES UNDERSTATE OVERALL PRICE GAINS BY ABOUT TWO PERCENTAGE POINTS, DUE IN PART TO ALLEGED PRICE INCREASES FOR GOODS NOT INCLUDED IN THE INDEX MARKET-BASKET. LIKEWISE, CONSUMER COMPLAINTS INDICATE THAT HIGHER PRICES AND/OR SHORTAGES ARE AT LEAST A MINOR PROBLEM. NEVERTHELESS KOREA'S PRICE STABILITY PERFORMANCE OVER THE PAST YEAR HAS BEEN IMPRESSIVE, PARTICULARLY SINCE IMPORTED ITEMS IN THE WPI ROSE 10.3 PERCENT. RELATIVE PRICE AND WAGE STABILITY, COUPLED WITH THE ABILITY TO INCREASE MOST EXPORT PRICES. UNDOUBTEDLY CONTRIBUTED TO THE DOUBLING OF EXPORTS IN VALUE IN FIRST HALF OF 1973, COMPARED TO 1972. WHILE THE GOVERNMENT'S PLAN TO CONTINUE ITS PRESENT POLICY OF DELAYING PRICE CHANGES UNTIL THEY BECOME INEVITABLE WILL BECOME PROGRESSIVELY DIFFICULT TO IMPLEMENT IF INFLATION ABROAD COUNTINUES, IT TESTIFIES TO THE GOVERNMENT'S STRONG POLICY EMPHASIS ON PRICE STABILITY.

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PAGE 03 SEOUL 05491 171103Z

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